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JUNE 4, 1954

CPIM - SUMATRA
ACTIVITY STATUS REPORT
LAND AND POLITICAL SECTION
APRIL AND MAY 1954

00524

The following is a review of the political situation and related developments in Indonesia as affecting Caltex Pacific's interests in Sumatra during the months of April and May 1954:

POLITICAL DEVELOPMENTS

Meetings regarding dissolution or revision of the Netherlands-Indonesian Union are scheduled to start in Holland in June. The Indonesians have been agitating for dissolution of the Union primarily for political reasons. Actually this could very well work out to their disadvantage economically because, if the Union is dissolved, they will not be able to participate in the European Payments Union on their present very favorable basis. The possible effects on Caltex Pacific of a dissolution of the Union are under study.

The Minister of Finance, Dr. Eng Eng Sie, has indicated that the Government is planning new regulations designed to favor Indonesian rather than foreign enterprise. One result of these proposals will be the withdrawal of the licenses to foreigners to operate small-scale industries and shops, including those employing less than 50 people or having power requirements of less than 5 H.P. According to plan, the larger enterprises will be required to employ as many Indonesians as possible, at least 90% of the total manpower and at least 75% of the executive staff having to be Indonesian. If it is not possible for an Indonesian to be the Manager, at least the Deputy Manager will have to be one. Furthermore, the aim is to bring about this "Indonesianization" of foreign enterprises within eight years.

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The North Sumatra fields of the B.P.M. - which were not returned to this Company after the war - have been taken under direct control of the Indonesian Ministry of Economic Affairs which has appointed a coordinator to handle the actual administration. Such a move has been impending for some time, hence it was not unexpected. Actually the situation is not greatly changed from what it has been, and it does not necessarily mean that these fields will be nationalized on a permanent basis.

COMPANY PROBLEMS

LABOR RELATIONS

Towards the end of May the oil workers union threatened to call a general strike on June 10 unless an acceptable solution to their demands is reached before that time. Many of the demands appear to be of a trivial nature. Efforts are being made through competent authorities to reach a satisfactory settlement.

EXCHANGE LICENSE

The Exchange License on which negotiations have been carried on for a very considerable time was at last granted on May 14, 1954. This license is effective as of January 1, 1954, will continue for a period of five years from that date, or through December 31, 1958, and will be subject to renewal if mutually satisfactory.

TAX REDUCTION NEGOTIATIONS

In view of the Exchange License having been granted, it is expected that Caltex Pacific will receive shortly decrees effecting the following:

1. Reduction of Export Tax (from 9% on crude @ \$1.81/bbl. to 5% on crude @ \$1.88/bbl.).
2. Exemption from Import Duties and Certificates on Capital Goods.
3. Exemption from Net Proceeds Tax.

The above three items, in addition to the 8% exploration allowance already granted, will place Caltex Pacific approximately on a 50/50 tax basis.

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